

REQUEST FOR PROPOSALS FOR

Investment Consultant Services

ISSUING OFFICE

Pennsylvania Turnpike Commission

Contracts Administration Department

On behalf of the

Pennsylvania Turnpike Commission Retiree Medical Trust

RFP NUMBER

18-10320-8275

DATE OF ISSUANCE

May 29, 2018

REQUEST FOR PROPOSALS FOR

RFP# 18-10320-8275

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CALENDAR OF EVENTS

RFP# 18-10320-8275

The Commission reserves the right to make changes or alterations to this schedule as the Commission determines is in its best interest.

Activity	Date	Time
Request for Proposals Issued	May 29, 2018	N/A
Deadline for Proposers to Submit Questions via email to RFP-Q@paturndpike.com	June 15, 2018	2:00 PM
Answers to Proposers questions posted to the Commission website at https://www.paturndpike.com/Procurement/Bidlist.aspx?RTYPE=O (<i>Estimate Only</i>)	June 25, 2018	N/A
Due Date for Proposals	July 16, 2018	2:00 PM
Oral Clarifications/Presentations (<i>If necessary</i>)	TBD	TBD
Anticipated Notice to Proceed (<i>Estimate Only</i>)	August 31, 2018	N/A

PART I

GENERAL INFORMATION FOR PROPOSERS

I-1. Purpose. This request for proposals (RFP) provides interested Proposers with sufficient information to enable them to prepare and submit proposals for consideration by the Pennsylvania Turnpike Commission Retiree Medical Trust (Trust) to satisfy a need for Investment Consultant Services.

I-2. Issuing Office. This RFP is issued for the Commission by the Contracts Administration Department on behalf of the Pennsylvania Turnpike Commission Retiree Medical Trust.

I-3. Scope. This RFP contains instructions governing the proposals to be submitted and the material to be included therein; a description of the service to be provided; requirements which must be met to be eligible for consideration; general evaluation criteria; and other requirements to be met by each proposal.

I-4. Problem Statement.

A. *General Description*

The Trust is soliciting proposals for the purpose of retaining an investment consultant to assist the Trustees with the investment management of Trust assets, including making appropriate recommendations for any changes to the Trust's investment policy, making recommendations of potential firms to serve as active managers of Trust assets and monitoring the performance of selected managers. The Trust intends to select the firm that best meets the Trust's selection criteria, as identified in Section III-4 of this RFP.

B. *Requested Services*

The services requested will include the following:

- Provide oversight of the investment assets of the Trust to ensure compliance with the Trust's Investment Policy Statement and industry best practices.
- Regularly review the asset allocation incorporated into the Investment Policy Statement and make recommendations for any modifications to the existing Investment Policy Statement.
- Assist in the selection of active managers and/or actively managed funds in which the Trust's investment assets shall be invested.
- Monitor key developments (including personnel transitions) at active managers and funds utilized by the Trust and to report on those that may be of relevance to the Trust.
- Assist in the rebalancing of Trust assets among asset classes.
- Provide advice to the Trustees concerning market conditions and security specific issues.
- Provide written quarterly performance reports by the 15th working day following the end of each Trust fiscal quarter.

- Attend meetings of the Board of Trustees and of the Pennsylvania Turnpike Commission, as requested. Trustees anticipate at least 4 meetings per year.

I-5. Type of Contract. The Trust intends to award one contract as a result of this RFP. It is proposed that if a contract is entered into as a result of this RFP, it will be a fee for services. The Trust may in its sole discretion undertake negotiations with Proposers whose proposals as to price and other factors show them to be qualified, responsible, responsive and capable of performing the work.

I-6. Contractor Integrity Provisions. Contractor Integrity Provisions will apply to this contract upon award and the awarded vendor may be required to complete a Background Qualifications Questionnaire prior to entering into an Agreement with the Commission and attend annual ethics training provided by the Commission. Proposers can find the Integrity Provisions and other related documents on the Commissions website at www.paturnpike.com (Doing Business, General Information, Integrity Provisions).

Include full disclosure of any potential conflict with the State Adverse Interest Act, 71 P.S. § 776.3, for a State Advisor or State Consultant by the prime or any subconsultant. If there is no adverse interest, you shall include the following statement: "I have reviewed the State Adverse Interest Act and determined that there is no adverse interest for anyone on this Agreement team." This information should be included in your transmittal letter/cover page or executive summary.

I-7. Rejection of Proposals. The Trust reserves the right to reject any and all proposals received as a result of this request, or to negotiate separately with competing Proposers.

I-8. Subcontracting. Any use of subcontractors by a Proposer must be identified in the proposal. During the contract period use of any subcontractors by the selected Proposer, which were not previously identified in the proposal, must be approved in advance in writing by the Trust.

If a Joint Venture responds to this RFP, the Commission will not accept separate proposals from joint venture constituents. A firm will not be permitted to submit a proposal on more than one (1) joint venture for the same RFP. Also, a firm that responds to this RFP as a prime may not be included as a designated subconsultant to another firm that responds to the same RFP. Multiple responses under any of the forgoing situations will cause the rejection of all responses of the firm or firms involved. This does not preclude a firm from being set forth as a designated subconsultant to more than one prime consultant responding to the RFP.

I-9. Incurring Costs. The Trust is not liable for any costs the Proposer incurs in preparation and submission of its proposal, in participating in the RFP process or in anticipation of award of contract.

I-10. Procurement Schedule of Events. The current Schedule for Key Procurement Dates for this procurement process leading to an award of the Contract is provided in the Calendar of Events, page 1 of this RFP. The Trust reserves the right to make changes or alterations to this schedule as the Trust determines is in its best interest. All changes to these dates and/ or times up to and including the due date for Proposals will be issued as an addendum to this RFP and will become part of this RFP and will be posted to the Commission's website at <https://www.paturnpike.com/procurement/Bidlist.aspx?rtype=o>.

Unless otherwise notified in writing by the Commission, the dates indicated below for submission of items or for other required actions on the part of a Proposer shall constitute absolute deadlines for those activities and failure to fully comply by the time and date stated shall cause a Proposer to be disqualified. All times stated are in Harrisburg, PA local time and are subject to change.

I.11. Questions and Answers. There will be no pre-proposal conference for this RFP. No negotiations, decisions or actions shall be initiated or executed by a Proposer as a result of any oral discussions with any Commission member, employee, consultant/contractor. Written questions may be submitted to clarify any points in the RFP which may not have been clearly understood. Written questions shall be submitted by email to RFP-Q@paturndpike.com with RFP 18-10320-8275 in the Subject Line to be received no later than the date and time provided on the Calendar of Events. All questions and written answers will be issued as an addendum to and become part of this RFP and will be posted to the Commission's website at (<http://www.paturndpike.com/procurement/Bidlist.aspx?rtype=o>), approximately on or before the date provided on the Calendar of Events and only if necessary. Proposers shall use the form provided in Appendix A to submit the questions.

I-12. Addenda to the RFP. If it becomes necessary to revise any part of this RFP before the proposal response date, addenda will be posted to the Commission's website under the original RFP document (<http://www.paturndpike.com/procurement/Bidlist.aspx?rtype=o>). It is the responsibility of the Proposer to periodically check the website for any new information or addenda to the RFP.

The Commission may revise a published advertisement. If the Commission revises published advertisement less than ten days before the RFP due date, the due date will be extended to maintain the minimum ten-day advertisement duration if the revision alters the project scope or selection criteria. Firms are responsible to monitor advertisements/addenda to ensure the submitted proposal complies with any changes in the published advertisement.

I-13. Response. To be considered, proposals must be delivered to the Pennsylvania Turnpike Commission's Contracts Administration Department, Attention: Wanda Metzger, on or before the date and time provided on the Calendar of Events. The Commission will **not** accept proposals via email or facsimile transmission.

Overnight Delivery Address:
Contracts Administration Department
Attn: Wanda Metzger
PA Turnpike Commission
700 South Eisenhower Blvd.
Middletown, PA 17057
Phone: (717) 831-7429

US Mail Delivery Address:
Contracts Administration Department
Attn: Wanda Metzger
PA Turnpike Commission
P.O. Box 67676
Harrisburg, PA 17106

Please note that use of U.S. Mail, FedEx, UPS, or other delivery method, does not guarantee delivery to the Contracts Administration Department by the above listed time for submission. Proposers mailing proposals should allow sufficient delivery time to ensure timely receipt of their proposals. If the Commission office location to which proposals are to be delivered is closed on the proposal response date, due to inclement weather, natural disaster, or any other cause, the deadline for submission shall be automatically extended until the next Commission business day on which the office is open. Unless the Proposers are otherwise notified by the Commission, the time for submission of proposals shall remain the same.

I-14. Proposals. To be considered, Proposers should submit a complete response to this RFP, using the format provided in PART II. Each proposal should be submitted in Five (5) hard copies of the Technical Submittal, Five (5) hard copies of the Diverse Business (DB) participation submittal, and Five (5) hard copies of the Cost Submittal. In addition to the hard copies of the proposal, two complete and exact copies of the Technical, Cost and DB submittals, along with all requested documents on CD-ROM or Flash Drive in Microsoft Office or Microsoft Office-compatible format. The electronic copy must be a mirror image of the hard copy. Proposer should ensure that there is no costing information in the technical submittal. The CD or Flash drive should clearly identify the Proposer and include the name and version number of the virus scanning software that was used to scan the CD or Flash drive before it was submitted. The Proposer shall present the proposal to the Contracts Administration Department only. No other distribution of proposals will be made by the Proposer. Each proposal page should be numbered for ease of reference.

An official authorized to bind the Proposer to its Proposal must sign the proposal. If the official signs the Proposal Cover Sheet (Appendix B to this RFP) and the Proposal Cover Sheet is attached to the proposal, the requirement will be met. For this RFP, the proposal must remain valid for at least 180 calendar days. Moreover, the contents of the proposal of the selected Proposer will become contractual obligations if a contract is entered into.

Each and every Proposer submitting a proposal specifically waives any right to withdraw or modify it, except as hereinafter provided. Proposals may be withdrawn by written or fax notice (fax number (717) 986-8714) received at the Commission's address for proposal delivery prior to the exact hour and date specified for proposal receipt.

However, if the Proposer chooses to attempt to provide such written notice by fax transmission, the Commission shall not be responsible or liable for errors in fax transmission. A proposal may also be withdrawn in person by a Proposer or its authorized representative, provided his/her identity is made known and he/she signs a receipt for the proposal, but only if the withdrawal is made prior to the exact hour and date set for proposal receipt. A proposal may only be modified by the submission of a new sealed proposal or submission of a sealed modification which complies with the requirements of this solicitation.

I-15. Economy of Preparation. Proposals should be prepared simply and economically, providing a straightforward, concise description of the Proposer's ability to meet the requirements of the RFP.

I-16. Discussions for Clarification. Proposers who submit proposals may be required to make an oral or written clarification of their proposals to the Issuing Office through the Contract Administration Department to ensure thorough mutual understanding and Proposer responsiveness to the solicitation requirements. The Issuing Office through the Contract Administration Department will initiate requests for clarification.

I-17. Best and Final Offers. The Issuing Office reserves the right to conduct discussions with Proposers for the purpose of obtaining "best and final offers." To obtain best and final offers from Proposers, the Issuing Office may do one or more of the following: a) enter into pre-selection negotiations; b) schedule oral presentations; and c) request revised proposals. The Issuing Office will limit any discussions to responsible Proposers whose proposals the Issuing Office has determined to be reasonably susceptible of being selected for award.

I-18. Prime Proposer Responsibilities. The selected Proposer will be required to assume responsibility for all services offered in its proposal whether or not it produces them. Further, the Commission will consider the selected Proposer to be the sole point of contact with regard to contractual matters.

I-19. Proposal Contents. Proposals will be held in confidence and will not be revealed or discussed with competitors, unless disclosure is required to be made (i) under the provisions of any Commonwealth or United States statute or regulation; or (ii) by rule or order of any court of competent jurisdiction. All material submitted with the proposal becomes the property of the Pennsylvania Turnpike Commission and may be returned only at the Commission's option. Proposals submitted to the Commission may be reviewed and evaluated by any person other than competing Proposers at the discretion of the Commission. The Commission has the right to use any or all ideas presented in any proposal. Selection or rejection of the proposal does not affect this right.

In accordance with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. § 67.707 (Production of Certain Records), Proposers shall identify any and all portions of their Proposal that contains confidential proprietary information or is protected by a trade secret. Proposals shall include a written statement signed by a representative of the company/firm identifying the specific portion(s) of the Proposal that contains the trade secret or confidential proprietary information.

Proposers should note that "trade secrets" and "confidential proprietary information" are exempt from access under Section 708(b)(11) of the RTKL. Section 102 defines both "trade secrets" and "confidential proprietary information" as follows:

Confidential proprietary information: Commercial or financial information received by an agency: (1) which is privileged or confidential; **and** (2) the disclosure of which would cause substantial harm to the competitive position of the person that submitted the information.

Trade secret: Information, including a formula, drawing, pattern, compilation, including a customer list, program, device, method, technique or process that: (1) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; **and** (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The term includes data processing software by an agency under a licensing agreement prohibiting disclosure.

65 P.S. §67.102 (emphasis added).

The Office of Open Records has determined that a third party must establish a trade secret based upon factors established by the appellate courts, which include the following:

- the extent to which the information is known outside of his business;
- the extent to which the information is known by employees and others in the business;
- the extent of measures taken to guard the secrecy of the information;
- the value of the information to his business and to competitors;
- the amount of effort or money expended in developing the information; and
- the ease of difficulty with which the information could be properly acquired or duplicated by others.

See Crum v. Bridgestone/Firestone North Amer. Tire., 907 A.2d 578, 585 (Pa. Super. 2006).

The Office of Open Records also notes that with regard to “confidential proprietary information the standard is equally high and may only be established when the party asserting protection shows that the information at issue is either ‘commercial’ or ‘financial’ and is privileged or confidential, and the disclosure *would* cause substantial competitive harm.” (emphasis in original).

For more information regarding the RTKL, visit the Office of Open Records’ website at www.openrecords.state.pa.us.

I-20. Debriefing Conferences. Proposers whose proposals are not selected will be notified of the name of the selected Proposer and given the opportunity to be debriefed, at the Proposer’s request. The Issuing Office will schedule the time and location of the debriefing. The Proposer will not be compared with other Proposers.

I-21. News Releases. News releases pertaining to this project will not be made without prior Trust approval, and then only in coordination with the Issuing Office.

I-22. Commission Participation. Unless specifically noted in this section, Proposers must provide all services to complete the identified work.

I-23. Cost Submittal. The cost submittal shall be placed in a separately sealed envelope within the sealed proposal and kept separate from the technical submittal.

I-24. Term of Contract. The term of the contract will commence on the Effective Date (as defined below) and will end three (3) years from that date with the Trust option of two (2) one (1) year extensions. The Trust shall fix the Effective Date after the contract has been fully executed by the Contractor and by the Trust and all approvals required by Commission or Trust contracting procedures have been obtained.

I-25. Proposer’s Representations and Authorizations. Each Proposer by submitting its proposal understands, represents, and acknowledges that:

- a. All information provided by, and representations made by, the Proposer in the proposal are material and important and will be relied upon by the Issuing Office in awarding the contract(s). Any misstatement, omission or misrepresentation shall be treated as fraudulent concealment from the Issuing Office of the true facts relating to the submission of this proposal. A misrepresentation shall be punishable under 18 Pa. C.S. 4904.
- b. The price(s) and amount of this proposal have been arrived at independently and without consultation, communication or agreement with any other Proposer or potential Proposer.
- c. Neither the price(s) nor the amount of the proposal, and neither the approximate price(s) nor the approximate amount of this proposal, have been disclosed to any other firm or person who is a Proposer or potential Proposer, and they will not be disclosed on or before the proposal submission deadline specified in the response section of this RFP.
- d. No attempt has been made or will be made to induce any firm or person to refrain from submitting a proposal on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.

- e. The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.
- f. To the best knowledge of the person signing the proposal for the Proposer, the Proposer, its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted or found liable for any act prohibited by State or Federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding or proposing on any public contract, except as disclosed by the Proposer in its proposal.
- g. To the best of the knowledge of the person signing the proposal for the Proposer and except as otherwise disclosed by the Proposer in its proposal, the Proposer has no outstanding, delinquent obligations to the Commonwealth including, but not limited to, any state tax liability not being contested on appeal or other obligation of the Proposer that is owed to the Commonwealth.
- h. The Proposer is not currently under suspension or debarment by the Commonwealth, or any other state, or the federal government, and if the Proposer cannot certify, then it shall submit along with the proposal a written explanation of why such certification cannot be made.
- i. The Proposer has not, under separate contract with the Issuing Office, made any recommendations to the Issuing Office concerning the need for the services described in the proposal or the specifications for the services described in the proposal.
- j. Each Proposer, by submitting its proposal, authorizes all Commonwealth agencies to release to the Commission information related to liabilities to the Commonwealth including, but not limited to, taxes, unemployment compensation, and workers' compensation liabilities.

I-26. Indemnification. The Proposer shall be responsible for, and shall indemnify, defend, and hold harmless the Pennsylvania Turnpike Retiree Medical Trust, its Trustees, Pennsylvania Turnpike Commission, its Commissioners, officers, employees, and agents from any claim, liability, damages, losses, causes of action, and expenses, including reasonable attorneys' fees, arising from damage to life or bodily injury or real or tangible personal property caused by the negligence or other tortious acts, errors, and omissions of Proposer, its employees, or its subcontractors while engaged in performing the work of the Agreement or while present on the Commission's premises, and for breach of the Agreement regarding the use or disclosure of proprietary and confidential information where it is determined that Proposer is responsible for any use of such information not permitted by the Agreement. The indemnification obligation shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for Contractor or its subcontractors under Workers' Compensation Acts, Disability Benefits Acts, or other Employee Benefit Act.

I-27. Data/Information Security Breach Notification. "Breach" shall mean any attempted or successful unauthorized acquisition, access, use, or disclosure of Commission data that compromises the security or privacy of such data.

“Commission Data” means Commission provided information and Commission related information acquired as a result of the services provided to Commission under this Agreement.

Proposer shall report to the Commission any Breach affecting Commission Data. The notice to be provided to the Commission by Proposer shall be provided without unreasonable delay and no later than within 48 hours of Proposer’s discovery of any Breach. A Breach shall be deemed to be discovered on the first day on which the Proposer knows or reasonably should have known of the Breach. The notice to be provided to the Commission by Proposer shall be made in writing to the Commission’s Information Security Officer and shall include the following content: (i) the nature of the Breach; (2) the specific Commission Data affected by the Breach; (3) the steps the Proposer is taking to remediate the Breach; and (4) steps the Proposer is taking to mitigate future Breaches. Following notification of the Breach, Proposer shall cooperate with the Commission’s investigation of the Breach and provide any other information regarding the Breach or the Commission Data affected which the Commission may reasonably request. Should notice to individuals whose information was part of Commission Data be required under any applicable data privacy law, including, but not limited to, individual state data breach notice laws or federal laws such as HIPAA and Graham Leach Bliley Act, Proposer shall provide the Commission with copies of any template notification letters and draft regulatory correspondence for Commission’s prior approval. Proposer shall provide any notifications required under the applicable data privacy laws on behalf of the Commission at the request of Commission. The Commission reserves the right to handle any notifications required and shall notify Proposer if the Commission will be handling the required notifications. Upon request, Proposer shall provide the Commission with its cyber-security policies and procedures. Proposer agrees to reimburse the Commission for any and all reasonable costs associated with the Commission’s response to Proposer’s Breach, including any fees associated with the Commission’s investigation of Proposer’s Breach, notification costs, and any reasonable offer of credit or identity monitoring product.

I-28. Insurance. Proposer will comply with the Insurance requirements as described in Appendix C - Insurance Specification.

I-29. Diverse Business (DB) Requirements. Proposer will comply with the DB Requirements as described in Appendix D – Diverse Business (DB) Requirements.

PART II

INFORMATION REQUIRED FROM PROPOSERS

Proposals must be submitted in the format, including heading descriptions, outlined below. To be considered, the proposal must respond to all requirements in this part of the RFP. Any other information thought to be relevant, but not applicable to the enumerated categories, should be provided as an appendix to the proposal. All cost data relating to this proposal and all Diverse Business cost data should be kept separate from and not included in the Technical Submittal. Each proposal shall consist of three separately sealed submittals:

1. Technical Submittal, which shall be a response to RFP **Part II, Section II-1 A through L**;
2. Diverse Business Participation Submittal, in response to RFP **Part II, Section II-2**; and
3. Cost Submittal, in response to RFP **Part II, Section II-3**.

The Commission reserves the right to request additional information which, in the Commission's opinion, is necessary to assure that the Proposer's competence, number of qualified employees, business organization, and financial resources are adequate to perform according to the RFP.

The Commission may make such investigations as deemed necessary to determine the ability of the Proposer to perform the work, and the Proposer shall furnish to the Issuing Office all such information and data for this purpose as requested by the Commission. The Commission reserves the right to reject any proposal if the evidence submitted by, or investigation of, such Proposer fails to satisfy the Commission that such Proposer is properly qualified to carry out the obligations of the agreement and to complete the work specified.

II-1 Technical Submittal.

A. Proposal Cover Sheet (See Appendix B)

Show the name of your firm, Federal I.D. number, address, name of contact person, contact person's email and telephone number date and the subject: Investment Consulting Services, RFP 18-10320-8275. Appendix B must be signed by an individual who is authorized to negotiate terms, render binding decisions and commit your firm's resources. In addition, it is required that all information requested in Appendix B be provided including information pertaining to location of office performing the work, contact information, listing of all Pennsylvania offices and total number of Pennsylvania employees, and location of company headquarters.

B. Table of Contents

Include a clear identification of the material by section and by page number.

C. Executive Summary

Summarize your understanding of the work to be done and make a positive commitment to perform the work necessary. This section should summarize the key points of your submittal. (Limit to two pages.) Include in this section or in a transmittal letter/cover page a statement regarding full disclosure of any potential conflict with the State Adverse Interest of State

Advisor or Consultant Statute as instructed in Proposal Section 1.6 Contractor Integrity Provisions.

D. Firm Overview

Provide a brief description of how your firm is organized, including the businesses in which it is engaged, the location of offices, the number of investment advisory professionals in each office, and the role of the investment advisory department in your firm. Indicate your firm's commitment to the investment advisory industry and comment on any recent significant changes in your organization. Discuss your firm's presence in and commitment to the Commonwealth of Pennsylvania including offices and employees. Include a discussion of the specific expertise and services that distinguish your firm.

If you propose to subcontract any portion of the work described in your response, the subcontracted firm or firms must be identified in this section. The role of the firm or firms should be explained along with a description of the specific expertise and services that the firm or firms contribute to the overall value of your proposal.

E. Personnel

Provide the names, proposed roles, background and experience, current professional licenses, office location and availability of the consulting personnel that would work on the Trust's account, and specifically identify the primary person(s) who will be responsible for managing the relationship with the Trust. Proposer must submit a current resume for all proposed staff listing relevant experience and applicable professional affiliations. For the proposed personnel, provide a list of three clients worked with in the last 36 months; a brief description of the services you provided; and the names, titles, addresses and telephone numbers of the contacts primarily responsible for these engagements. You should only list clients which have requirements similar in nature to those of the Trust.

F. Approach to management of Similar Funds (maximum 3 pages)

Discuss your general approach to the management of assets for pension funds, OPEB trusts and similar funds. Discuss your team's approach to asset allocation, recommendation of managers and how you monitor compliance. Describe your research on existing and potential investments including how you evaluate investment managers, the search process and due diligence.

Note: The Trust is interested in conducting the assessment as expeditiously as possible and would favor an approach that moves aggressively to complete the assessment while still providing a thorough assessment that fully meets all of the requirements of the RFP.

G. Assets Advised Upon

Please provide the information as requested in Appendix G – Assets Advised Upon.

H. Approach to alternative asset classes

Please detail your experience, expertise and approach to alternative asset classes including hedge funds, private equity, managed futures, real estate, commodities and derivative contracts.

I. Education

Please provide details on educational programs or efforts offered by your firm to educate the OPEB trustees and their designees on new investments, pertinent events and proposed changes.

J. Compliance

Please discuss your firm's compliance process, including your procedures for ensuring that the specific investment restrictions are complied with.

K. Operations

- Please provide sample reports similar to those that would be provided for the Trust's accounts. Please include sample reports of an Investment Policy Statement and Asset Liability Management Report.
- Describe your reporting software and any other software your firm uses in order to provide the Trust accurate and comprehensive reporting and analysis.
- Confirm your ability and willingness to provide monthly performance updates, attend quarterly Trustee meetings, provide ad hoc reports to right to know requests, assist in the annual audit process, provide direction in the monthly rebalancing in compliance with the Investment Policy and provide an asset allocation study at least semiannually.

L. Potential Conflicts of Interest/Fiduciary Responsibilities

- Do you or any related or affiliated companies receive any payments including commissions from managers you recommend, consider for recommendation, or otherwise mention to clients? If so, what is the extent of these payments in relation to your total revenue?
- Describe your policies or procedures to address conflicts of interest, to prevent payments or relationships discussed above from being considered when you provide advice to your clients and to disclose such information to your clients?
- What percentage of your clients utilize managers, investment funds, brokerage services or other service providers from whom your firm receives fees or commissions?
- Do you have any arrangements with broker-dealers under which you or a related or affiliated company will benefit if managers place trades for their clients with such broker-dealers?

If your firm is retained by the Trust, acknowledge that your firm would have a fiduciary duty to the Commission and Trust in connection with the services to be provided by your firm.

II-2 Diverse Business (DB) Requirements (Appendix D).

The Commission's Diverse Business (DB) Requirements for this procurement and a resulting contract are identified in Appendix D. There is no minimum participation level (MPL) for DBs established for this contract. However, the utilization of DBs are encouraged and will be considered as a criterion in the evaluation of proposals and may be considered as a factor in the Commission's selection of a firm for this contract.

The proposer must include in its DB participation submittal that it meets the requirements set forth in the Commission's DB Requirements - Appendix D. In particular, the proposer shall address the section of the DB Requirements labeled, "Actions Required by Proposer during the procurement/consultant selection phase". In addition, the DB participation submittal shall indicate the amount of DB participation incurred in the proposal in terms of dollars committed or percentage of total contract amount.

II-3 Cost Submittal.

The information requested in this section shall constitute your cost submittal. **THE COST SUBMITTAL SHALL BE PLACED IN A SEPARATE SEALED ENVELOPE WITHIN THE SEALED PROPOSAL AND ON A CD-ROM, SEPARATE FROM THE TECHNICAL SUBMITTAL.**

Proposers should **not** include any assumptions in their cost submittals. If the proposer includes assumptions in its cost submittal, the Issuing Office may reject the proposal. Proposers should direct in writing to the Issuing Office pursuant to Part I-10, Questions and Answers of this RFP any questions about whether a cost or other component is included or applies. All Proposers will then have the benefit of the Issuing Office's written answer so that all proposals are submitted on the same basis.

A. Cost Proposal

Present a concise list of the scope of services and the work products that your firm proposes to provide. Given your proposed scope of services and work products, discuss your proposed fee arrangement *based on each of the following alternatives*:

1. Compensation on a fixed annual cost, payable monthly.
2. Compensation based on the value of the Trust assets.

B. Reimbursement of "Out-of-Pocket" Expenses

The Trust shall reimburse for "Out-of-Pocket" expenses upon proper invoice rendered with appropriate receipts attached. Such expenses include long distance telephone, postage, air express charges, fax, reproduction and related costs necessarily incurred as Investment Consultant. Travel expenses related to performance of the services to the Trust, and approved in advance by the Trust, will be reimbursed in accordance with the Pennsylvania Turnpike Commission's travel policy.

Any costs not provided in the cost proposal will be assumed as no charge to the Commission.

The selected Proposer shall only perform work on this contract after the Effective Date is affixed and the fully-executed contract sent to the selected Proposer. The Trust shall issue a written Notice to Proceed to the selected Proposer authorizing the work to begin on a date which is on or after the Effective Date. The selected Proposer shall not start the performance of any work prior to the date set forth in the Notice of Proceed and the Trust shall not be liable to pay the selected Proposer for any service or work performed or expenses incurred before the date set forth in the Notice to Proceed. No Commission employee or Trustee has the authority to verbally direct the commencement of any work under this Contract.

PART III

CRITERIA FOR SELECTION

III-1. Mandatory Responsiveness Requirements. To be eligible for selection, a proposal shall be (a) timely received from a Proposer; and (b) properly signed by the Proposer.

III-2. Technical Nonconforming Proposals. The two (2) Mandatory Responsiveness Requirements set forth in Section III-1 above (a & b) are the only RFP requirements that the Commission will consider to be non-waivable. The Issuing Office reserves the right, in its sole discretion, to (1) waive any other technical or immaterial nonconformities in the proposal, (2) allow the Proposer to cure the nonconformity, or (3) consider the nonconformity in the evaluation of the proposal.

III-3. Proposal Evaluation. Proposals will be reviewed and evaluated by a committee of qualified personnel selected by the Trustees. This committee will recommend for award the firm that most closely meets the requirements of the RFP and satisfies the Trust's requirements.

Award will only be made to a Proposer determined to be responsive and responsible in accordance with Commonwealth Management Directive 215.9, Contractor Responsibility Program.

III-4. Evaluation Criteria. The following criteria will be used, in order of relative importance from the highest to the lowest, in evaluating each proposal:

1. **Overall**
 - a. Responsiveness, organization, and clarity of the Proposal
 - b. Presence in and commitment to the Commonwealth of Pennsylvania
2. **Assigned Personnel**
 - a. Qualifications and experience
 - b. Responses of references
 - c. Location and availability to Commission staff
3. **Firm Experience and Approach to the Engagement**
 - a. Qualifications and experience
 - b. Approach to the engagement (including compliance and reporting)
 - c. Responses of references
4. **Commitment to Diversity and Inclusion.** This refers to the inclusion of DB firms, as described in Part II-2. Participation may be measured in terms of total dollars committed or percentage of total contract amount to certified DB firms.
5. **Cost**

Proposer Questions		Pennsylvania Turnpike Commission Retiree Medical Trust (PTC)			
		Proposer Name:			
#	Page	Section	Section Description	Proposer Question	Commission Response
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					

**APPENDIX B – PROPOSAL COVER SHEET
 Pennsylvania Turnpike Commission**

Investment Consultant Services

RFP# 18-10320-8275

Enclosed in three separately sealed submittals is the proposal for the Proposer identified below for the above referenced RFP:

Proposer Information:	
Proposer Company Name	
Proposer Mailing Address	
Proposer Website	
Proposer Contact Person/Title	
Contact Person's Phone Number	
Contact Person's Fax Number	
Contact Person's Email Address	
Proposer Federal ID Number	
Location of Headquarters	
Location of Office(s) Performing the Work	
Listing of all Pennsylvania Offices and Total Number of Pennsylvania Employees	

Submittals Enclosed and Separately Sealed:

<input type="checkbox"/> Technical Submittal <input type="checkbox"/> Diverse Business Participation Submittal <input type="checkbox"/> Cost Submittal
Signature
Signature of an official authorized to bind the Proposer to the provisions contained in the Proposer's proposal: _____
Print Name
Title

An official authorized to bind the Proposer to its provisions must sign the proposal. If the official signs this Proposal Cover Sheet and the Proposal Cover Sheet is attached to the proposal, the requirement will be met.

Before starting any work, the Proposer will maintain the following minimum levels of insurance at Proposer's own expense. Proposer shall furnish Certificates of Insurance showing the coverages as outlined below. No work may be performed until the required evidence of Insurance is provided in accordance with the terms of the contract.

- a) All insurance shall be procured from insurers permitted to do business in the State in which the project is taking place and having an A.M. Best Rating of at least "A-, Class VIII".
- b) Proposer shall not have a Self-Insured Retention (SIR) on any policy greater than \$50,000, which is the responsibility of the Proposer. If Proposer's policy(ies) has a Self-Insured Retention exceeding this amount, approval must be received from the Trust prior to starting work. In the event any policy includes a SIR or Deductible, the Proposer is responsible for payment within the SIR or Deductible of their policy(ies) and the Additional Insured requirements specified herein shall be offered within the SIR and Deductible amount(s).
- c) All insurance required herein, except for Professional Liability Insurance, shall be written on an "occurrence" basis.
- d) The Proposer's insurance carrier(s) shall agree to provide at least thirty (30) days prior written notice to the Trust in the event coverage is canceled or non-renewed, unless cancellation is for non-payment of premium. In the event of cancellation or non-renewal of coverage(s) for any reason, it is the Proposer's responsibility to replace coverage to comply with the Contract requirements so there is no lapse of coverage for any time period.

If the insurance carriers will not issue or endorse their policy(s) to comply with the above it is the responsibility of the Proposer to report any notice of cancellation or non-renewal at least thirty (30) days prior to the effective date of this notice.

- e) Proposer shall provide the Trust with Certificates of Insurance, showing the insurance coverages listed below, ten days prior to the start of work and thereafter upon renewal or replacement of each coverage. The Proposer shall not begin any work until the Trust has reviewed and approved the Certificate of Insurance.

Failure of the Trust to demand such certificate or other evidence of full compliance with these insurance requirements or failure of the Trust to identify a deficiency from evidence that is provided shall not be construed as a waiver of Proposer's obligation to maintain such insurance.

- f) Pennsylvania Turnpike Retiree Medical Trust, its Trustees, Pennsylvania Turnpike Commission, its Commissioners, officers, employees and agents shall be added as ADDITIONAL INSUREDS on all required liability policies (except Workers' Compensation and Professional Liability) for ongoing operations and completed operations on a primary noncontributory basis.

There shall be no "Insured versus Insured Exclusion" on any policies; all policies will provide for "cross liability coverage".

- g) Waiver of Rights of Subrogation: Proposer shall waive all rights of recovery against the Trust and all the additional insureds for loss or damage covered by any of the required insurance (except Professional Liability).
- h) The amount of insurance in the required coverages shall not be construed to be a limitation of the liability on the part of the Proposer.
- i) The carrying of insurance described below shall in no way be interpreted as relieving the Proposer of any responsibility or liability under the contract.
- j) Any type of insurance or any increase in limits of liability which the Proposer requires for its own protection or on account of statute shall be its own responsibility and at its own expense.
- k) Proposer shall promptly notify the Trust and the appropriate insurance company(ies) in writing of any accident(s) as well as any claim, suit or process received by the insured Proposer arising in the course of operations under the contract. The Proposer shall forward such documents received to its insurance company(ies), as soon as practicable, or as required by its insurance policy(ies).

REQUIRED COVERAGES - the following may be provided through a combination of primary and excess policies in order to meet the minimum limits set forth below:

1. **Workers' Compensation and Employer's Liability:**

Provided in the State in which the work is to be performed and elsewhere as may be required and shall include:

- a) Workers' Compensation Coverage: Statutory Requirements
- b) Employers Liability Limits not less than:

Bodily Injury by Accident:	\$500,000 Each Accident
Bodily Injury by Disease:	\$500,000 Each Employee
Bodily Injury by Disease:	\$500,000 Policy Limit
- c) Includes sole proprietorships and officers of corporation who will be performing the work.

2. **Commercial General Liability:**

Provided on standard ISO forms or an equivalent form including Premises - Operations, Independent Proposers, Products/Completed Operations, Broad Form Property Damage, Contractual Liability, and Personal Injury and Advertising Injury.

- a) Occurrence Form with the following limits:

- (1) General Aggregate: \$2,000,000
- (2) Products/Completed Operations Aggregate: \$2,000,000
- (3) Each Occurrence: \$1,000,000
- (4) Personal and Advertising Injury: \$1,000,000

3. **Automobile Liability:**

- a) Coverage to include All Owned, Hired and Non-Owned Vehicles (or "Any Auto"). If Proposer does not have any Owned Vehicles, Proposer is still required to maintain coverage for Hired and Non-Owned Vehicles as either a stand-alone policy or endorsed onto the Commercial General Liability policy above
- b) Per Accident Combined Single Limit \$1,000,000

4. **Commercial Umbrella Liability:**

- a) Policy(ies) to apply on a Following Form Basis of the following:
 - (1) Commercial General Liability,
 - (2) Automobile Liability, and
 - (3) Employers Liability Coverage.
- b) Minimum Limits of Liability
 - Occurrence Limit: \$4,000,000
 - Aggregate Limit (where applicable): \$4,000,000

5. **Professional Liability/Errors & Omissions Insurance:**

- a) The definition of "Covered Services" shall include the services required in the scope of this contract.
- b) Minimum Limits of Liability:
 - Per Claim: \$5,000,000
 - Aggregate: \$5,000,000
- c) If the policy is issued on a claims-made form, the following requirements will apply:
 - 1. The retroactive date must be on or before the start of work under this contract;
 - 2. In the event of policy cancellation or non-renewal, the Proposer must purchase "tail coverage/an extended reporting period" or maintain coverage for a period of three (3) years after the completion of their work/final payment.

6. **Network Security and Privacy Liability:**

- a) Proposer shall maintain the following coverage including but not limited to:
 - (1) Network Security Liability for third party liability arising out of hacking, network system intrusions, unauthorized access/use to data or systems, distribution of malicious code, denial of service and cyber extortion.
 - (2) Privacy Liability for third party liability arising out of breach of privacy, inclusive of confidential and proprietary business information, HIPAA violations and other breaches of personally identifiable information and /or

protected health information that may arise from their work with this contract.

- b) Minimum Limits of Liability:
 - Per Claim: \$2,000,000
 - Aggregate: \$2,000,000
- c) Privacy Breach notification and Credit Monitoring: \$2,000,000 Per Occurrence

7. **Crime Insurance:**

- a) Include the Employee Theft and Theft, Disappearance and Destruction coverage parts. The Employee Theft Coverage part shall include the Clients' Property Endorsement (ISO Form CR 04 01, or its equivalent).
- b) Minimum Limits of Liability: Per Occurrence: \$1,000,000

APPENDIX D

Pennsylvania Turnpike Commission DIVERSE BUSINESS (DB) REQUIREMENTS

Diverse Business Participation. The Commission is committed to Diverse Business (DB) participation on competitive contracting opportunities. Firms or entities that have not previously performed work or provided services to the Commission are encouraged to respond to the solicitations. RFPs may include DB participation as part of the criteria for the evaluation of proposals, and the Commission may consider DB participation as a selection factor.

Minimum Participation Level (MPL). The minimum participation level (MPL) for the inclusion of DBs will be established in the RFP/advertisement as a percentage.

(a) General Requirements. Section 303 of Title 74 of the Pennsylvania Consolidated Statutes, 74 Pa.C.S. § 303, requires proposer on contracts funded pursuant to the provisions of Title 74 (Transportation) and 75 (Vehicle Code) administered and issued by the Commission to make Good Faith Efforts to solicit subconsultants that are Diverse Businesses (DBs) as defined in Section 303. The DB requirements of Section 303 apply to this contract.

Section 303 requires proposers to make Good Faith Efforts, as described below, to solicit subconsultants that are DBs during the proposal process to maximize participation of DBs in competitive contracting opportunities.

The Commission is committed to participation by DBs and will enforce the requirements of Section 303 and this section. Failure to make Good Faith Efforts and demonstrate such Good Faith Efforts in the solicitation of subconsultants may result in the proposer being declared ineligible for the contract.

Proposers shall document and submit to the Commission all Good Faith Efforts, as described in this section, to solicit subconsultants that are DBs during the solicitation process.

Proposers are encouraged to utilize and give consideration to consultants offering to utilize DBs in the selection and award of contracts.

Proposers shall not discriminate on the basis of gender, race, creed or color in the award and performance of contracts in accordance with 62 Pa.C.S. §3701.

Failure to comply with the requirements of Section 303 or this specification may result in the imposition of sanctions as appropriate under section 531 of the Procurement Code, 62 Pa.C.S. § 531 relating to debarment and suspension.

The Commission's Director of the Office of Diversity and Inclusion, or designee, is designated the Responsible Official who shall supervise the DB program and ensure that the Commission complies with the DB program.

(b) Definitions. The following definitions apply to terms used in this specification:

1. Disadvantaged Business – A business that is owned or controlled by a majority of persons, not limited to members of minority groups, who are subject to racial, social, ethnic prejudice or cultural bias.

2. Diverse Business – A disadvantaged business, minority-owned or women-owned business or service-disabled veteran-owned or veteran-owned small business that has been certified by a third-party certifying organization.

3. Minority-owned Business – A business owned and controlled by a majority of individuals who are African Americans, Hispanic Americans, Native Americans, Asian Americans, Alaskans or Pacific Islanders.

4. Professional Services – An industry of infrequent, technical or unique functions performed by independent contractors or consultants whose occupation is the rendering of the services, including: (1) design professional services as defined in 62 Pa.C.S. § 901 (relating to definitions); (2) legal services; (3) advertising or public relations services; (4) accounting, auditing or actuarial services; (5) security consultant services; (6) computer and information technology services; and (7) insurance underwriting services.

5. Pro Forma Effort-The act of completing a form or document identifying efforts to solicit DBs for a project in order to satisfy criteria with little or no expectation that the DBs contacted or identified will perform any of the work.

6. Service-Disabled Veteran-Owned Small Business – A business in the United States which is independently owned and controlled by a service-disabled veteran(s), not dominant in its field of operation, and employs 100 or fewer employees.

7. Subconsultant- Any individual, partnership, firm, or corporation entering into a contract with the prime consultant for work under the contract, including those providing professional and other services.

8. Third-party Certifying Organization – An organization that certifies a small business, minority-owned business, women-owned business or veteran-owned small business as a diverse business. The term includes: (1) the National Minority Supplier Development Council; (2) the Women’s Business Development Enterprise National Council; (3) the Small Business Administration; (4) The Department of Veteran Affairs; (5) the Pennsylvania Unified Certification Program.

9. Veteran-owned Small Business –A small business owned and controlled by a veteran or veterans.

10. Women-Owned Business – A business owned and controlled by a majority of individuals who are women.

(c) Actions Required by Proposer during the procurement/consultant selection phase

1. Submission Requirements – Consultant Responsiveness.

- a. **Minimum Participation Level (MPL) Documentation** - If the documentation submitted with the proposal demonstrates that the proposer has identified DBs sufficient to meet the MPL established for this contract, the proposer will be deemed to have satisfied the DB requirement during this phase. The proposer is required to provide the business name and business address of each DB and supporting documentation that includes proof of certification.

If the consultant’s proposal demonstrates the consultant’s inability to meet the MPL established for this contract, the proposer shall demonstrate Good Faith Efforts with its proposal. Failure to submit the required documentation demonstrating Good Faith Efforts as further described below with the proposal may result in a rejection of the proposal.

- b. If no MPL has been established for this contract, the proposer is required to either provide a statement of intent that it will self-perform 100% of the work for the agreement, or demonstrate Good Faith Efforts to solicit subconsultants that are DBs. In either case documentation shall be provided with the proposal.

Failure to submit the required information identified above with the proposal may result in a rejection of the proposal.

2. Good Faith Effort Requirements: The documentation of Good Faith Efforts must include the business name and business address of each DB considered. Supporting documentation must also include proof of certification and any explanation of Good Faith Efforts the proposer would like the Commission to consider. Any services to be performed by a DB are required to be readily identifiable to the agreement. Good Faith efforts are demonstrated by seeking out DB participation in the project given all relevant circumstances. The Commission requires the proposer to demonstrate more than Pro Forma Efforts. Evidence of Good Faith Efforts includes, but is not limited to:

- a. Consultant solicits through all reasonable and available means the interest of all certified DBs with the capacity to perform the scope of work set forth in the agreement.
- b. The proposer must provide written notification at least 5 business days before proposals are due to allow the DBs to respond to the solicitation.
- c. The proposer must determine with certainty if DBs are interested by taking appropriate steps to follow up initial solicitations.
- d. The proposer must make efforts to select portions of the work to be performed by DBs to include, where appropriate, breaking out contract work into economically feasible units to facilitate DB participation;
- e. It is the proposer's responsibility to make a portion of the work available to DBs and, to select those portions of the work, so as to facilitate DB participation.
- f. The proposer shall provide evidence of such negotiations that include the names, addresses, and telephone numbers of DBs considered; A description of the information provided regarding the required work and services for the work selected for subconsultants; and evidence as to why additional agreements could not be reached for DBs to perform the work.
- g. Proposers cannot reject or withhold solicitation of DBs as being unqualified without sound reasons based on a thorough investigation of their capabilities.
- h. The DB's standing within its industry, membership in specific groups, organizations or associations and political or social affiliations (for example union v. non-union employee status) are not legitimate causes for the rejection or non-solicitation of proposals in the proposer's efforts to meet the Good Faith Efforts requirement.
- i. Efforts to assist interested DBs in obtaining bonding, lines of credit or insurance.

3. Actions Taken by the Commission. As part of the proposal review process, the Commission will review the submissions to determine whether the proposer has complied with Section 303 and this requirement in the selection of DB subconsultants. The Commission will determine whether the proposer has either met the MPL or provided acceptable documentation as noted above. The Commission reserves the right to contact proposers for clarification during the review and negotiation process.

If the Commission determines that the proposer has failed to either meet the MPL or provide acceptable documentation as noted above, the proposal may be rejected.

(d) Consultant Requirements During Performance of Services.

1. Replacement of a DB Subconsultant. Consultant must continue good faith efforts through completion of the contract. The obligation to make Good Faith Efforts to solicit subconsultants for any type of service extends to additional work required for any service which is identified to be performed by a DB. If at any time during the performance of the work, it becomes necessary to replace or add a subconsultant that is a DB, the consultant, as appropriate, shall immediately notify the Commission and seek approval in

writing in accordance with the Agreement of the need to replace the DB, which notice shall include the reasons for the replacement. If a prime consultant who originally indicated that it would self-perform all work subsequently decides to use a subconsultant for any work under the contract, the consultant must submit documentation of all Good Faith Efforts as to the work for which a subconsultant is obtained.

2. Records. Maintain project records as are necessary to evaluate DB compliance and as necessary to perform the reporting function addressed below. Maintain all records for a period of 3 years following acceptance of final payment. Make these records available for inspection by the Commission, its designees or agents. These records should indicate:

2.a. The number of DB and non-DB subconsultants and the type of services performed on or incorporated in this project.

2.b. The progress and efforts made in seeking out DB subconsultant organizations and individual DB consultants for work on this project to increase the amount of DB participation and/or to maintain the commitments made at the time of the proposal to DBs.

2.c. Documentation of all correspondence, contacts, telephone calls, and other contacts made to obtain the service of DBs on this project.

3. Reports. Maintain monthly reports and submit reports as required by the Commission concerning those contracts and other business executed with DBs with respect to the records referred to in subsection (e)2. above in such form and manner as prescribed by the Commission. At a minimum, the Reports shall contain the following:

3.a The number of Contracts with DBs noting the type of services provided, including the execution date of each contract.

3.b The amounts paid to each DB during the month, the dates of payment, and the overall amounts paid to date. If no payments are made to a DB during the month, enter a zero (\$0) payment.

3.c Upon request and upon completion of individual DB firm's work, submit paid invoices or a certification attesting to the actual amount paid. In the event the actual amount paid is less than the award amount, a complete explanation of difference is required.

4. Subconsultant Contracts

4.a. Subcontracts with DB firms will not contain provisions waiving legal rights or remedies provided by laws or regulations of the Federal Government or the Commonwealth of Pennsylvania or the Commission through contract provisions or regulations.

4.b. Prime consultant will not impose provisions on DB subconsultants that are more onerous or restrictive than the terms of the prime's contract with non-DBs.

4.c. Executed copies of subcontracts/purchase orders are to be received by the Commission before the commencement of work by the DB.

5. Payments to DB Subconsultants. Payments to DBs are to be made in accordance with the prompt payment requirements of Chapter 39, Subchapter D of the Procurement Code, 62 Pa.C.S. §3931 et seq. Performance of services by a DB subconsultant in accordance with the terms of the contract entitles the subconsultant to payment.

(e) Actions to be Taken by Commission After Performance of Services. Following completion of the Consultant's services, the Director of the Commission's Office of Diversity and Inclusion or his/her designee will review the overall DB participation to assess the Consultant's compliance with Section 303 and this contract. Appropriate sanctions may be imposed under 62 Pa.C.S. § 531 (relating to debarment or suspension) for a Consultant's failure to comply with Section 303 and the requirements of the contract.

Appendix E
RFP 18-10320-8275

**PENNSYLVANIA TURNPIKE COMMISSION
RETIREE MEDICAL TRUST**

**Financial Statements and Required Supplementary Information
Years Ended May 31, 2017 and 2016
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Years Ended May 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Commissioners
Pennsylvania Turnpike Commission

We have audited the accompanying financial statements of the Pennsylvania Turnpike Commission Retiree Medical Trust (the Trust) as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of May 31, 2017 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Audit of Prior-Year Financial Statements

The 2016 financial statements were audited by other auditors and their report thereon, dated September 2, 2016, contained an unmodified opinion on those financial statements in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 and the supplemental schedules of funding progress and employer contributions on pages 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mitchell Titus, LLP

November 20, 2017

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Management's Discussion and Analysis (*continued*)

This section of the annual financial report of the Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust") presents a narrative overview and analysis of the financial performance of the Trust and is meant to be read in conjunction with the basic financial statements, which follow this section.

Overview of the Financial Statements

The Pennsylvania Turnpike Commission (the "Employer") established the Trust, which is intended to provide funding for non-pension other postemployment benefits ("OPEB") for employees who meet the age and service requirements outlined in the Employer's plan documents.

The statements of plan net position present information on all of the Trust's assets and deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences being reported as net position. Over time, increases or decreases in plan net position serve as a relative indicator of the change in the financial position of the Trust.

The statements of changes in plan net position show the result of the Trust's total activities during the fiscal years. Changes in plan net position (increases or decreases) reflect the current fiscal period's impact upon the overall financial position of the Trust.

Notes to the basic financial statements contain information and offer explanations to the basic financial statements. The notes are intended to assist the reader in understanding the Trust's basic financial statements.

Financial Highlights

The following table summarizes the statements of plan net position as of May 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(in thousands)	
Total assets	\$ 380,602	\$ 331,892	\$ 322,296
Total liabilities	<u>557</u>	<u>750</u>	<u>524</u>
Net position – restricted for other postemployment benefits	<u>\$ 380,045</u>	<u>\$ 331,142</u>	<u>\$ 321,772</u>

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Management's Discussion and Analysis (*continued*)

Financial Highlights (*continued*)

The following table summarizes the statements of changes in plan net position for the years ended May 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(in thousands)	
<i>Additions</i>			
Contributions	\$ 30,000	\$ 30,000	\$ 48,000
Net investment income	<u>37,321</u>	<u>(3,956)</u>	<u>15,557</u>
Total additions	67,321	26,044	63,557
<i>Deductions</i>			
Claims expense	17,821	16,131	16,026
Administrative service fees	<u>597</u>	<u>543</u>	<u>554</u>
Total deductions	<u>18,418</u>	<u>16,674</u>	<u>16,580</u>
Change in net position	48,903	9,370	46,977
<i>Net position – restricted for other postemployment benefits</i>			
Beginning of period	<u>331,142</u>	<u>321,772</u>	<u>274,795</u>
End of period	<u>\$ 380,045</u>	<u>\$ 331,142</u>	<u>\$ 321,772</u>

Net position – restricted for other postemployment benefits increased by \$48.9 million and \$9.4 million in fiscal years 2017 and 2016, respectively. Employer and retiree contributions of \$30.0 million and net investment earnings of \$37.3 million, offset by claims expense of \$17.8 million, are the main components of the fiscal 2017 increase. Employer and retiree contributions of \$30.0 million, offset by a net investment loss of \$4.0 million and claims expense of \$16.1, are the main components of the fiscal 2016 increase.

Employer contributions remained steady in fiscal year 2017. Employer contributions decreased \$18.0 million in fiscal year 2016. The Trustees recommended a reduction in Employer contributions for fiscal year 2016 based on the funding status and funding progress. See Note 5 and the Required Supplementary Information.

The \$37.3 million net investment income in fiscal 2017 was \$41.3 million higher than the \$4.0 million net investment loss in fiscal 2016; the \$4.0 million net investment loss in fiscal 2016 was \$19.5 million lower than the \$15.6 million net investment income in fiscal 2015. The increase in net investment income in fiscal 2017 was the result of improved market conditions consistent with improving market indices and low interest rates. The decrease in net investment income in fiscal 2016 was the result of deteriorating global market conditions at the time.

Deductions from plan net position increased by \$1.7 million in fiscal year 2017 compared to fiscal year 2016, which was primarily related to increases in claims expense. Deductions from plan net position held steady in fiscal year 2016, increasing only 0.6% compared to fiscal year 2015.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Statements of Plan Net Position

May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	(in thousands)	
ASSETS		
Cash and cash equivalents	\$ 8,000	\$ 10,898
Interest and dividends receivable	251	260
Investments, at fair value	<u>372,351</u>	<u>320,734</u>
Total assets	<u>380,602</u>	<u>331,892</u>
LIABILITIES		
Claims payable	340	670
Other liabilities	<u>217</u>	<u>80</u>
Total liabilities	<u>557</u>	<u>750</u>
Net position – restricted for other postemployment benefits	<u>\$ 380,045</u>	<u>\$ 331,142</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Statements of Changes in Plan Net Position

Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	(in thousands)	
ADDITIONS		
<i>Contributions</i>		
Employer	\$ 28,176	\$ 28,143
Retiree	1,824	1,857
Total contributions	<u>30,000</u>	<u>30,000</u>
<i>Net investment income (loss)</i>		
Interest, dividends and capital gains income	6,854	7,514
Change in fair value of investments	31,169	(10,873)
Investment fees	<u>(702)</u>	<u>(597)</u>
Total net investment income (loss)	<u>37,321</u>	<u>(3,956)</u>
Total additions	67,321	26,044
DEDUCTIONS		
Claims expense	17,821	16,131
Administrative service fees	<u>597</u>	<u>543</u>
Total deductions	<u>18,418</u>	<u>16,674</u>
Change in net position	48,903	9,370
Net position – restricted for other postemployment benefits		
Beginning of year	<u>331,142</u>	<u>321,772</u>
End of year	<u>\$ 380,045</u>	<u>\$ 331,142</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 1 REPORTING ENTITY

The Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust") was established on May 30, 2008, as an irrevocable trust that is tax-exempt under Section 115 of the Internal Revenue Code.

The Trust is administered by Trustees who are appointed by and serve at the pleasure of the Pennsylvania Turnpike Commission (the "Employer"). The chairman and vice chairman of the Trust are appointed by the Trustees and serve two-year terms.

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The Employer maintains a welfare plan program (the "Plan") for the purpose of providing benefits to eligible retirees and their dependents. The Plan is a single employer, defined benefit plan. The Trust was established to provide funding for the Plan. PNC Bank serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees. The Trust's financial statements are not included in the financial statements of a public employee retirement system.

Plan benefit provisions and employee contributions are established and may be amended by the Employer.

Plan Benefit Provisions

Management and Supervisory Union Employees/Retirees

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental, and vision benefits to management and supervisory union employees based upon their date of hire and years of service. Eligibility categories include:

- Employees hired before March 1, 2016, who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The last five years of service must be with the Commission.
- Employees hired on or after March 1, 2016, who have reached 30 years of service and are under age 60; benefit eligibility changes from 30 to 25 years for retirees 60 years of age or older. The last 10 years of service must be with the Commission. (Some current and previous Commonwealth employees hired on or after this date would be grandfathered under the first eligibility category.)

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION *(continued)*

Plan Benefit Provisions *(continued)*

Management and Supervisory Union Employees/Retirees (continued)

The same coverage is provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to March 1, 2001, may purchase medical coverage at the group rate and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

Non-Supervisory Union Employees/Retirees

The benefits also include certain post-employment medical and prescription drug benefits to non-supervisory union employees who have satisfied the eligibility requirements in the applicable collective bargaining agreement.

- For Local 30 professionals who were hired prior to January 1, 2011, and Local 250 and 77 employees who were hired prior to February 1, 2016, the earlier of completion of 20 years of credited service or the later of attainment of age 60 and completion of 10 years of credited service. The last five years of credited service must be with the Commission.
- For Local 30 professionals who were hired on or after January 1, 2011, and Local 250 and 77 employees who were hired on or after February 1, 2016, the earlier of completion of 30 years of credited service or the later of attainment of age 60 and completion of 25 years of credited service. The last 10 years of credited service must be with the Commission.

The same coverage is provided to spouses or domestic partners and dependents of eligible non-supervisory union retirees until the death of the retiree. Surviving spouses or domestic partners are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

The Trust was responsible for and made all of the required retiree claims and related administrative fee payments in fiscal years 2017 and 2016.

Funding Policy

The Employer has adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Employer anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution ("ARC"), as determined by the Employer's actuary, during the approval of its annual operating budget.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION *(continued)*

Contribution Rates and Membership

Retiree and spouse contribution rates at May 31, 2017, were as follows:

- Management and supervisory union employees who retired prior to July 1, 1998 and union employees who retired prior to October 1, 1997 – the retiree/spouse contributes the full cost of coverage less the Employer’s monthly subsidy of \$19.28 once the retiree reaches age 65.
- Union employees who retired on October 1, 1997, or later – the retiree/spouse contributes the full cost of coverage less the Employer’s monthly subsidy of \$73.50 when the retiree or spouse reaches age 65.
- Management and supervisory union employees who retire on or after March 1, 2016, and Local 250 and 77 employees who retire after February 1, 2016, as well as Local 30 professionals who retire on or after January 1, 2014, must participate in a wellness program or contribute 5% of the premium if less than age 65. This mandate also applies to spouses under 65 and other adult dependents age 19 to 26.
- Surviving spouses and domestic partners are paying 100% of the premiums, except for surviving spouses of management and supervisory union employees who retired after March 1, 2001.

Membership consists of the following as of January 1, 2016, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	1,442
Fully eligible active plan participants	646
Other active plan participants	<u>1,283</u>
Total participant count	<u><u>3,371</u></u>

Refer to Note 5, Funding Status and Funding Progress, for additional information regarding the funding status and actuarial methods and assumptions used in the actuarial valuations of the Plan.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The Pennsylvania Turnpike Commission Retiree Medical Trust is accounted for as a fiduciary fund. Accordingly, the basic financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). The Trust follows GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Retiree contributions are recognized in the period in which the contributions are due. Contributions to the Trust are recognized when due and when the Employer has made a formal commitment to provide its contributions. Claims are recognized when due and payable in accordance with the terms of the Plan.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less.

Investments

The Trust implemented GASB 72 in fiscal year 2017 and beginning in that year categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. See Note 4 for further discussion.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recently Issued Accounting Pronouncements *(continued)*

It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, and Statement No. 50, *Pension Disclosures*. Statement No. 74 requires defined benefit OPEB plans to issue a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement improves financial reporting of OPEB plans through enhanced note disclosures and schedules of required supplementary information about the components of the net OPEB liability and related ratios, the OPEB plan's fiduciary net position as a percentage of the total OPEB liability and significant assumptions and other inputs used to measure the total OPEB liability as well as the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. In addition, all defined benefit OPEB plans are required to present the annual money-weighted rate of return on OPEB plan investments for each of the most recent 10 fiscal years in the required supplementary information. Statement No. 74 is effective for fiscal years beginning after June 15, 2016. Early application is encouraged. Management has not determined the impact this GASB Statement will have on its financial statements.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following tables provide a summary of cash and cash equivalents and investments, held by the Trust, measured at fair value as of May 31, 2017, and May 31, 2016:

	<u>May 31, 2017</u>	<u>Level 1</u> (in thousands)	<u>Level 2</u>
<i>Investments by fair value level</i>			
U.S. equity	\$ 110,703	\$ 110,703	\$ -
Non-U.S. equity	57,344	57,344	-
Fixed income	57,006	40,779	16,227
Total investments by fair value level	<u>225,053</u>	<u>\$ 208,826</u>	<u>\$ 16,227</u>
<i>Investments measured at the net asset value (NAV)</i>			
Real estate	59,030		
Hedge fund of funds	37,093		
Global tactical asset allocation	36,537		
Commodities	14,638		
Total investments measured at the NAV	<u>147,298</u>		
Total investments	372,351		
Cash and cash equivalents (mutual funds – money market)	<u>8,000</u>		
Total cash and cash equivalents and investments	<u>\$ 380,351</u>		

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

	<u>May 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>
		(in thousands)	
<i>Investments by fair value level</i>			
U.S. equity	\$ 94,879	\$ 94,879	\$ -
Non-U.S. equity	44,792	44,792	-
Fixed income	64,684	49,715	14,969
	<u>204,355</u>	<u>\$ 189,386</u>	<u>\$ 14,969</u>
<i>Investments measured at the net asset value (NAV)</i>			
Real estate	35,593		
Hedge fund of funds	31,612		
Global tactical asset allocation	32,969		
Commodities	16,205		
	<u>116,379</u>		
Total investments measured at the NAV	116,379		
Total investments	320,734		
Cash and cash equivalents (mutual funds – money market)	<u>10,898</u>		
Total cash and cash equivalents and investments	<u>\$ 331,632</u>		

Mutual funds, including money market, fixed income and equity, as well as stocks are valued using prices quoted in active markets for those securities and are categorized as Level 1. Corporate bonds and other fixed income assets are categorized as Level 2 as they are valued using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, and at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	<u>May 31, 2017 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real estate ⁽¹⁾	\$ 59,030	\$ 4,714	Quarterly 50%-100%	30-60 days
Hedge fund of funds ⁽²⁾	37,093	1,508	Quarterly	65-90 days
Global tactical asset allocation ⁽³⁾	36,537	-	Monthly	10 days
Commodities ⁽⁴⁾	14,638	-	Annually	180 days
	<u>147,298</u>	<u>\$ 6,222</u>		
Total investments measured at the NAV	<u>\$ 147,298</u>	<u>\$ 6,222</u>		

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

	May 31, 2016 Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate ⁽¹⁾	\$ 35,593	\$ 26,164	Quarterly 50%-100%	30-60 days
Hedge fund of funds ⁽²⁾	31,612	3,856	Quarterly	65-90 days
Global tactical asset allocation ⁽³⁾	32,969	-	Monthly	10 days
Commodities ⁽⁴⁾	16,205	-	Annually	180 days
Total investments measured at the NAV	\$ 116,379	\$ 30,020		

- (1) *Real estate.* This type includes three real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Trust's ownership interest in the funds. All three of the funds are open-ended, so there is no expected distribution period.
- (2) *Hedge fund of funds.* The funds invest in a broad range of investments, including, but not limited to, global distressed corporate securities, activist equities, value equities, reorganization equities, municipal bonds, high yield bonds, leveraged loans, unsecured debt, collateralized debt obligations, mortgage backed securities, direct lending and sovereign debt, real estate, venture capital, and private equity-type structures. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Trust's ownership interest in the funds. These are short-lived funds with expected remaining lives of 5 years or less.
- (3) *Global tactical asset allocation.* The fund primarily invests in global equities; it also owns foreign and U.S. corporate bonds. Their first priority is capital preservation. The managers tend to carry a cash balance of at least 10% of assets. The fund also owns gold bullion, typically 5%-10% of assets. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Trust's ownership interest in the fund. The portfolio has monthly liquidity with 10 days' written notice. This portfolio is an evergreen fund structure. In an evergreen fund structure, the fund has an indefinite fund life.
- (4) *Commodities.* This type includes one fund that is a multi-manager fund. The fund pursues investment strategies in global commodity and commodity related markets. The fund seeks to diversify its exposure by allocating assets among various trading strategies. Subscriptions to this fund are made to specific tranches with the fund. Redemptions are permitted on the anniversary of each tranche with 180 days' notification. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Trust's ownership interest in the fund.

The Trustees have adopted an Investment Policy Statement (the "Policy") for the purposes of documenting investment objectives and guidelines for the Trust's assets, establishing an appropriate investment strategy for managing the Trust's assets, establishing periodic performance and compliance reporting requirements, and complying with all fiduciary, prudence, due diligence, and legal requirements for the Trust's assets.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

In fiscal year 2014, revisions were made to update both asset allocations and benchmarks in the appendices to the Policy. The Trustees and the Investment Advisor to the Trust are implementing the guidelines established under the Policy. However, the process for full implementation of the guidelines takes time to complete.

The Trustees have the authority to implement the Policy in the sole and exclusive interest of the Trust to satisfy the purposes of the Trust. The Policy includes three investment objectives:

- To invest assets of the Trust in a manner consistent with prudent person fiduciary standards;
- To provide for funding and anticipated withdrawals on a continuing basis for payment of OPEB benefits and related expenses; and
- To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objectives set forth in the Policy.

Permitted Investments

The Policy established the Trust's target asset allocations and ranges as follows:

Asset Class	Asset Weightings	
	Range	Target
U.S. equity	25% – 33%	29%
Non-U.S. equity	15% – 25%	15%
Fixed income and money market	14% – 18%	16%
Real estate	12% – 18%	15%
Global tactical asset allocation	7% – 13%	10%
Hedge fund of funds	7% – 13%	10%
Commodities	3% – 7%	5%

The asset allocation targets and ranges are used as guidelines rather than strict rules. The Trust may invest its assets in any investment structure the Trustees deem appropriate, including, but not limited to, separate accounts, mutual funds, commingled funds, ETFs, index funds, limited partnerships, master limited partnerships, and other collective investment structures.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

Permitted Investments *(continued)*

Cash Equivalents

Cash reserves shall consist of cash instruments having a quality rating of “A-1”, “P-1” or higher, as established by Moody’s or Standard & Poor’s. Bankers’ acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term corporate obligations must be rated “A” or better by Moody’s or Standard & Poor’s. Institutional money market funds utilized shall have similar underlying high-quality, investment-grade securities.

Equities

For all separate accounts, investments may be made in common stocks, preferred stocks, tracking stocks, master limited partnerships, convertible securities, American Depository Receipts, ETFs, and publicly traded Real Estate Investment Trusts. All investments shall be readily marketable securities that are actively traded on a major exchange.

Not more than 6% of the total stock portfolio at market value may be invested in the common stock of any one company. Ownership of the shares of one company shall not exceed 2% of that company’s outstanding shares. Not more than 25% of stock at market value may be held in any one industry category.

The non-U.S. equity allocation should include a diverse global mix of at least 10 countries. Currency hedging is permitted.

Investment Grade Fixed Income

Fixed income investments shall be high-quality, marketable securities with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade municipal or corporate issues including convertibles. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio, at the time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies.

The overall rating of the fixed income assets shall be at least “A”, according to one of the three rating agencies (Fitch, Moody’s or Standard & Poor’s). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies have assigned ratings of “Baa3” or “BBB-” ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

Permitted Investments *(continued)*

High Yield Fixed Income

The Trust may invest in high-yield fixed income securities, which include publicly traded debt securities, municipal bonds, domestic corporations, domestic banks, other United States financial institutions or mortgage/asset backed securities, and debt securities issued by foreign entities denominated in U.S. dollars which are traded domestically.

The Trust may invest in high-yield fixed income debt investments that have a minimum credit quality rating of "B-" (Standard & Poor's and Fitch) or "B3" (Moody's) as established by at least two of the three bond rating agencies. If only two of the rating agencies rate a security, the lower rating applies. Unrated bonds shall conform to the minimum quality ratings of the Policy. High yield fixed income debt investments are limited such that any one entity may not cumulatively exceed 5% of an individual manager's total portfolio measured at market value.

Global Fixed Income

The Trust may invest in global fixed income in either a separate account or by utilizing mutual funds, EETFs, index funds, or commingled investment funds.

Real Estate

The Trust may invest in real estate utilizing mutual funds, REITs, ETFs, index funds, limited partnerships, master limited partnerships, commingled funds, insurance company separate accounts, insurance company annuities, open-end diversified commingled equity funds, and other commingled investment structures. No direct real estate investments or real estate separate accounts shall be permitted unless authorized in writing by the Trustees.

Hedge Fund of Funds

The Trust may invest in hedge funds of funds through investment managers using mutual funds, index funds, commingled funds, limited partnerships, or other investment structures specifically designed for tax-exempt investors.

Private Equity

The Trust may invest in private equity through limited partnerships, commingled funds, or other investment structures designed for tax-exempt investors.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Notes to Financial Statements

Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

Permitted Investments *(continued)*

Commodities

The Trust may invest in commodities through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures and may also invest with investment managers that are Commodity Trading Advisors registered with the Commodities Future Trading Commission.

Infrastructure

The Trust may invest in infrastructure investments through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures. No direct real asset investments shall be permitted unless authorized in writing by the Trustees.

Global Tactical Asset Allocation

The Trust may invest in global tactical asset allocation strategies through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures.

Special Situations

The Trust may invest in one or more special situations strategies that shall be managed to seek to achieve a competitive risk-adjusted rate of return, provide diversification benefits to the Trust and/or provide material collateral benefits beyond pure investment return.

The allocation of the Trust's assets as of May 31, 2017, is as follows:

<u>Asset Class</u>	<u>Range</u>	<u>Amount (In thousands)</u>	<u>Percentage of Portfolio</u>
U.S. equity	25% – 33%	\$ 110,703	29.1%
Fixed income and money market	14% – 18%	65,006	17.1
Real estate	12% – 18%	59,030	15.5
Non-U.S. equity	15% – 25%	57,344	15.1
Hedge fund of funds	7% – 13%	37,093	9.8
Global tactical asset allocation	7% – 13%	36,537	9.6
Commodities	3% – 7%	14,638	3.8

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

Permitted Investments *(continued)*

Special Situations *(continued)*

The allocation of the Trust's assets as of May 31, 2016, is as follows:

<u>Asset Class</u>	<u>Range</u>	<u>Amount (in thousands)</u>	<u>Percentage of Portfolio</u>
U.S. equity	25% – 33%	\$ 94,879	28.6%
Fixed income and money market	14% – 18%	75,582	22.8
Real estate	12% – 18%	35,593	10.7
Non-U.S. equity	15% – 25%	44,792	13.5
Hedge fund of funds	7% – 13%	31,612	9.5
Global tactical asset allocation	7% – 13%	32,969	10.0
Commodities	3% – 7%	16,205	4.9

Credit Risk

The Trust's exposure to credit risk at May 31, 2017 is as follows:

<u>Debt Investments</u>	<u>Quality Rating</u>						<u>Total</u>
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below BBB</u>	<u>Not Rated</u>	
	(in thousands)						
Mutual funds – fixed income	\$ 16,014	\$ 3,418	\$ 6,525	\$ 8,942	\$ 5,880	\$ -	\$ 40,779
Corporate bonds (other)	556	-	-	636	14,657	378	16,227

The Trust's exposure to credit risk at May 31, 2016, is as follows:

<u>Debt Investments</u>	<u>Quality Rating</u>						<u>Total</u>
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below BBB</u>	<u>Not Rated</u>	
	(in thousands)						
Mutual funds – fixed income	\$ 24,359	\$ 3,967	\$ 9,251	\$ 7,321	\$ 4,817	\$ -	\$ 49,715
Corporate bonds	638	-	-	1,498	12,668	165	14,969

Interest Rate Risk

On May 31, 2017, the effective duration of the Trust's debt investments, by type, is as follows:

<u>Debt Investments</u>	<u>Fair Value (In Thousands)</u>	<u>Effective Duration (In Years)</u>
Mutual funds – fixed income	\$ 40,779	1.67
Corporate bonds (other)	16,227	2.21

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS *(continued)*

Interest Rate Risk *(continued)*

On May 31, 2016, the effective duration of the Trust's debt investments, by type, is as follows:

<u>Debt Investments</u>	<u>Fair Value (in thousands)</u>	<u>Effective Duration (in years)</u>
Mutual funds – fixed income	\$ 49,715	1.95
Corporate bonds	14,969	1.52

NOTE 5 FUNDING STATUS AND FUNDING PROGRESS

The funding status of the plan, by actuarial valuation date, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (Funding Excess)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll</u>
(dollar amounts in thousands)						
January 1, 2016	\$ 331,568	\$ 330,395	\$ (1,173)	100.4%	\$ 124,458	(0.9)%
January 1, 2014	271,265	283,133	11,868	95.8%	126,699	9.4%

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information depicting the change in the actuarial value of Plan assets over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The valuation measurements in the chart above are, in part, the result of estimates of the value of reported amounts and assumptions about the probability of events in the long term. Such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of the sharing of costs between the Employer and the Plan members through the respective valuation dates. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST
Notes to Financial Statements
Years Ended May 31, 2017 and 2016

NOTE 5 FUNDING STATUS AND FUNDING PROGRESS *(continued)*

Actuarial Methods and Assumptions *(continued)*

A summary of the actuarial methods and assumptions used in the January 1, 2016, valuation is as follows:

Actuarial cost method	Projected Unit Credit
Discount rate	6.5%
Rate of return on assets	6.5%
Inflation rate	2.5%
Amortization method	Level dollar
Amortization period	
▪ UAAL as of March 1, 2012	10 years (closed)
▪ Subsequent changes	10 years (open)
Asset valuation method	Fair value
Benefit Assumption – increases/decreases	No changes

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and prescription drug benefits. Further adjustments apply based on percentage of costs associated with administrative expenses, aging factors, potential excise taxes due to healthcare reform, and other healthcare reform provisions.

The health cost trend assumption for medical and pharmacy benefits at sample years is as follows:

Valuation Year Ending February 28	Pre-65 Trend	Post-65 Trend
2016	6.2%	7.9%
2017	5.9%	6.6%
2018	5.2%	5.2%
2019	5.2%	5.2%
2020	5.2%	5.2%
2025	5.2%	5.2%
2030	5.6%	5.3%
2035	6.1%	5.3%
2040	5.7%	5.1%
2050	5.5%	5.0%
2060	5.4%	5.2%
2070	4.6%	4.9%

The health cost trend assumptions for dental and vision benefits and premiums are assumed to be 4.0% per year.

Salary increases were not considered as OPEB benefits are not based upon pay.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Required Supplementary Information

Schedule of Funding Progress (Unaudited)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (Funding Excess) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll [(B-A)/C]
January 1, 2016	\$ 331,568	\$ 330,395	\$ (1,173)	100.4%	\$ 124,458	(0.9)%
January 1, 2014	271,265	283,133	11,868	95.8	126,699	9.4
March 1, 2012	152,341	250,750	98,409	60.8	124,241	79.2

Following is a listing of changes in assumptions used in the January 1, 2016, valuation compared with previous valuations. See Note 5 for additional information.

- The eligibility conditions for Local 250 and 77 union employees hired on or after February 1, 2016, and management and supervisory union employees hired on or after March 1, 2016, was modified to the earlier of completion of 30 years of Credited Service or the later of attainment of age 60 and completion of 25 years of Credited Service. The last 10 years of Credited Service must be with the Commission.
- Local 30 Professionals who retire on or after January 1, 2014, and all other union, management and supervisory union employees who retire on or after February 1, 2016, must participate in the wellness program if less than age 65, including spouses under age 65 and other dependents age 19 to 26 or contribute 5% of the monthly premium based on the selected coverage level.
- Per capita claims costs were updated based on recent experience of Employer retirees and the healthcare trend rate was updated to use the Society of Actuaries-Getzen Model version 2014.
- The discount rate was reduced from 7% to 6.50% per annum.

Following is a listing of changes in assumptions used in the January 1, 2014, valuation compared with previous valuations.

- Per capita claims costs were updated based on recent experience of Employer retirees and the healthcare trend was updated.
- Assumed health plan elections for members attaining age 65 were modified from 2/3rd electing Signature 65 and 1/3rd electing Freedom Blue (without Rx) to 60% electing Signature 65 and 40% electing Freedom Blue (without Rx).
- The assumed percentage of eligible female members covering a spouse decreased from 50% to 40%.

PENNSYLVANIA TURNPIKE COMMISSION RETIREE MEDICAL TRUST

Required Supplementary Information *(continued)*

Schedule of Employer Contributions (Unaudited)

(Dollar Amounts in Thousands)

<u>Year Ended May 31</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
2017	\$ 11,121	\$ 28,176	253.4%
2016	11,368	28,143	247.6
2015	12,683	46,180	364.1



INVESTMENT POLICY STATEMENT (“Policy”)
FOR
PENNSYLVANIA TURNPIKE COMMISSION RETIREE
MEDICAL TRUST (“Trust”)
FOR
OTHER POST EMPLOYMENT BENEFITS (“OPEB”) TRUST

Amended: May 30, 2014

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Background

The Pennsylvania Turnpike Commission (the "Employer") has established the Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust"). The Trust is intended to provide for funding of non-pension other post-employment benefits ("OPEB") for employees who meet the eligibility requirements outlined in the Employer plan documents. The Employer has appointed Trustees (the "Trustees") of the Pennsylvania Turnpike Commission Retiree Medical Trust to establish and monitor appropriate policies and procedures related to the operation and administration of the Trust.

Purpose

This Investment Policy Statement ("Policy") establishes the investment objectives of the Trust and governs the investment practices of the Trust. The purpose of this Policy is to achieve the following:

1. Document the investment objectives and guidelines for the Trust assets;
2. Establish an appropriate investment strategy for managing the Trust assets, including establishing permitted investment strategies, vehicles, the investment horizon, risk tolerance, liquidity requirements, and asset allocation;
3. Establish periodic performance and compliance reporting requirements that will effectively monitor investment results and ensure the investment policy is being followed;
4. Comply with all fiduciary, prudence, due diligence and legal requirements for the Trust assets.

Investment Authority

The Trustees have authority to implement this Policy in the sole and exclusive interest of the Trust to satisfy the purposes of the Trust. In implementing this Policy, the Trustees may delegate certain functions to:

1. Investment Managers, who shall invest the portion of the Trust assets placed under their control in accordance with this Policy. Investment Managers are accorded full discretion, within the general and specific Policy guidelines, to select and implement the purchase and sale of securities.
2. An Investment Consultant to provide comprehensive and continuous investment advice to the Trustees, and to assist the Trustees in the investment process and to maintain compliance with this Policy. The Investment Consultant may assist in reviewing and recommending changes to this Policy and the Trust's objectives and guidelines; assist in evaluating and selecting Investment Managers and investment vehicles; provide ongoing review and monitoring of Investment Managers; measuring and evaluating investment performance; and other tasks as deemed appropriate by the Trustees and as stated in the Contract with the Investment Consultant. The Investment Consultant must be registered with the Securities and Exchange Commission.

3. A Custodian to physically maintain possession of securities, certificates, shares, or other indicia of ownership owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other things. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust as authorized by the Trustees.
4. Additional professionals, such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the Trustees in meeting its responsibilities and obligations to administer Trust assets prudently.

Statement of Investment Objectives

The investment objectives of the Trustees are as follows:

1. To invest assets of the Trust in a manner consistent with prudent person fiduciary standards:
 - a. All transactions undertaken must be for the sole and exclusive interest of the Trust;
 - b. To defray reasonable expenses in a prudent manner;
 - c. Diversify assets in order to minimize the impact of large losses in single individual investment.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of OPEB benefits and related expenses.
 - a. To conserve and enhance the value of Trust assets in real terms through asset appreciation and income generation;
 - b. To establish an investment strategy in accordance with a risk level the Trustees determine to be appropriate for the objectives and goals of the Trust.
3. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objectives set forth in this Policy under the section labeled "Performance Expectations".

Governing Law

Notwithstanding anything to the contrary herein, the provisions of this Policy shall comply with all applicable law and shall be administered and interpreted in a manner consistent with applicable law, including but not limited to the laws of the Commonwealth of Pennsylvania. Any provision herein that is not consistent with applicable laws shall be disregarded.

Investment Guidelines

Investment Horizon

The Trust's investment objectives have been determined to be a 20-25 year investment horizon so that interim fluctuations should be viewed with appropriate perspective. The Trustees have adopted a long-term investment horizon such that the chance and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The long-term nature of the Trust's investments generally mirrors the long-term nature of the associated

liabilities that the Trust was created to fund along with the likely future contribution flow to the Trust. If at some time in the future the estimated duration of the liabilities becomes shorter, the Trustees will consider shortening the investment horizon of the Trust.

Diversification

In general, the Trust will maintain adequate liquidity to meet benefit payments and expenses in cash or cash equivalents. The remaining assets may be invested in longer term investments. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments and industries.

Asset Allocation

The Trustees shall periodically conduct asset allocation and risk assessment studies to determine and adopt the asset allocation that they believe has the greatest likelihood of meeting the Trust's investment objectives, while also representing an appropriate balance between risk, return and diversification. The Trust assets will be invested in accordance with the asset allocation targets and ranges adopted by the Trustees for each asset class or investment strategy as reflected in Appendix A of this Policy.

Investment Managers shall have discretion to invest a portion of the assets they manage in cash reserves when they deem it appropriate. Investment Managers will be evaluated against appropriate benchmarks for the funds under their management as reflected in Appendix B of this Policy.

Rebalancing

The asset allocation targets and ranges established by this Policy represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the Policy range. When these divergences occur, the Investment Consultant shall advise the Trustees to rebalance the asset mix to fall within appropriate allocation ranges. Similarly, if the cash required to meet liquidity needs falls to a level where near term distributions cannot be met, the Investment Consultant will advise the Trustees to increase cash reserves to appropriate levels.

When the Investment Consultant is notified of new contributions to the Trust, the Investment Consultant will review the Trust's current asset allocation and advise the Trustees as to the most appropriate allocation of cash and rebalancing transfers required to fall within the Asset Allocation ranges.

Performance Expectations

Over the long term, the performance objective for Trust assets will be to achieve a long-term total annualized rate of return that is equal to or greater than the Trust's actuarial return assumption. Additionally, it is expected that the return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be evaluated by reviewing returns in the context of industry standard benchmarks, for each asset class and individual Investment Managers, and blended benchmark comparisons for the Trust in its entirety.

Selection of Investment Managers

The Trustees shall establish, in consultation with the Investment Consultant, agreed upon procedures for the identification and evaluation of Investment Managers to be retained by the Trust. The Investment Manager identification, retention and termination process shall be open, transparent, comprehensive, and use objective criteria to the extent possible, but may use different criteria and processes depending on the implementation vehicle being used, such as separate accounts, commingled funds, mutual funds, Exchange Traded Funds (“ETFs”), index funds, limited partnerships, master limited partnerships, or other collective investment structures.

Permitted Investment Strategies and Guidelines

The Trustees shall make every effort to prudently select Investment Managers and investment vehicles that follow the guidelines in this Policy, however, the Trust may invest its assets in any investment structure the Trustees deem appropriate, including, but not limited to, separate accounts, mutual funds, commingled funds, ETFs, index funds, limited partnerships, master limited partnerships, and other collective investment structures.

Every effort shall be made, to the extent practical, prudent and appropriate, to select mutual funds, commingled funds, ETFs, limited partnerships, master limited partnerships, and other collective investment structures, that have investment objectives and policies that are consistent with this Policy. However, given the nature of these collective investment structures, it is recognized that there may be differences between this Policy and the objectives and governing documents of the collective investment structures utilized by the Trust.

Cash Equivalents

Cash reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher, as established by Moody's or Standard & Poor's. Bankers' acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term corporate obligations must be rated A or better by Moody's or by Standard & Poor's. Institutional money market funds utilized shall have similar underlying high quality, investment grade, securities.

Equities

For all separate accounts, investments may be made in common stocks, preferred stocks, tracking stocks, master limited partnerships, convertible securities, American Depository Receipts (“ADRs”), ETFs, and publicly-traded Real Estate Investment Trusts (“REITs”). All investments shall be readily marketable securities that are actively traded on a major exchange. The overall equity portfolio should be structured so that there is reasonable diversification between growth and value styles and capitalization size.

Equity investment in any one company, in a separate account of a given Investment Manager, shall be limited to not more than 6% of the total stock portfolio at market value. Ownership of the shares of one company shall not exceed 2% of that company's outstanding shares. Not more than 25% of stock, valued at market, may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Investment Managers.

Master limited partnerships are allowed in equity portfolios only if the Investment Manager has conducted thorough due diligence on the partnership and has determined that the issue is an appropriate investment under the letter and spirit of this Policy. It is the responsibility of the Investment Manager to determine that the investment is sufficiently liquid and will not generate unrelated business income tax ("UBTI"). The overall non-U.S. equity allocation should include a diverse global mix of at least 10 countries. Currency hedging is permitted.

Investment Grade Fixed Income

Fixed income investments in separate accounts shall be high quality, marketable securities with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade municipal or corporate issues including convertibles. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio, at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies.

The overall rating of the fixed income assets shall be at least "A", according to one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody's or Standard & Poor's) have assigned ratings of Baa3 or BBB- ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities. If the credit quality of any one issue should drop below investment grade (as defined by two of the three rating agencies - Fitch, Moody's and Standard & Poor's), the Investment Manager should notify the Trustees and the investment advisor immediately detailing their plan of action regarding the security. All To Be Announced ("TBA") investments shall be issued by a Federal Agency and must be of investment grade. Active management is encouraged and may require transactions that will temporarily lower the return or change the maturity of the portfolio in anticipation of market changes. Holdings of individual securities should be liquid so as not to incur unnecessary transaction costs.

High Yield Fixed Income

The Fund may invest in high yield fixed income securities through Investment Managers in either a separate account or by utilizing mutual funds, ETFs, index funds, or commingled investment funds. High Yield Fixed Income investments shall mean publicly traded debt securities, municipal bonds, domestic corporations and domestic banks and other United States financial institutions or mortgage/asset backed securities. Debt securities issued by foreign entities denominated in U.S. dollars which are traded domestically are also available for investment.

High yield fixed income debt investments, held in a separate account, are limited to the first six quality grades as established by Standard & Poor's, Fitch or Moody's. Credit ratings for the securities held in the portfolio shall be limited to B- (Standard & Poor's/Fitch) or B3 (Moody's) and above as established by at least two of the three bond rating agencies. If a security is rated by all three agencies, two of the agencies must rate the security B- or B3 or above. If only two of the rating agencies rate a security, the lower rating applies. Unrated bonds shall conform to the minimum quality ratings of this Policy.

High yield fixed income debt investments, held in separate account, are limited such that any one entity may not cumulatively exceed 5% of an individual manager's total portfolio measured at market value.

Global Fixed Income

The Fund may invest in global fixed income through Investment Managers in either a separate account or by utilizing mutual funds, ETFs, index funds, or commingled investment funds.

Real Estate

The Fund may invest in real estate utilizing mutual funds, REITs, ETFs, index funds, limited partnerships, master limited partnerships, commingled funds, insurance company separate accounts, insurance company annuities, open-end diversified commingled equity ("ODCE") funds and other commingled investment structures. No direct real estate investments or real estate separate accounts shall be permitted unless authorized in writing by the Trustees.

Hedge Fund of Funds

The Fund may invest in hedge fund of funds through Investment Managers using mutual funds, index funds, commingled funds, limited partnerships or other investment structures specifically designed for tax-exempt investors. Hedge fund of funds investments should meet the following requirements:

- The hedge fund of funds manager is domiciled in the United States.
- Leverage is not utilized by the hedge fund of funds manager at the fund of funds level.
- Unrelated Business Taxable Income (UBTI) is not passed to tax-exempt investors.
- The hedge fund of funds manager has exercised proper due diligence in the selection, retention, and termination of the underlying hedge funds they invest in.
- The hedge fund of funds manager acknowledges that, at least annually, all of the underlying hedge funds they invest in provide adequate holdings and risk disclosures, provide audited financial statements, and utilize unaffiliated, independent, third-party administrator/custodians.
- The hedge fund of funds manager receives written independent pricing for each hedge fund's net asset value from an unaffiliated, independent, third-party administrator/custodian on a monthly basis.
- The hedge fund of funds manager is registered with the SEC as an Investment Advisor.
- The hedge fund of funds manager carries E&O insurance of at least \$5 million.

Private Equity

The Trust may invest in private equity through limited partnerships, commingled funds, or other investment structures designed for tax-exempt investors.

Commodities

The Trust may invest in commodities through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures. The Trust may also invest with Investment Manager that are Commodity Trading Advisors (“CTAs”) that are registered with the Commodities Futures Trading Commission (CFTC).

Infrastructure

The Trust may invest in infrastructure investments through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures. No direct real asset investments shall be permitted unless authorized in writing by the Trustees.

Global Tactical Asset Allocation

The Trust may invest in global tactical asset allocation (“GTAA”) strategies through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures.

Special Situations

The Trust may invest in one or more special situations strategies that shall be managed to seek to achieve a competitive risk-adjusted rate of return, provide diversification benefits to the Trust and/or provide material collateral benefits beyond pure investment return. A wide range of investment approaches and activities are contemplated. By way of example, but not by way of limitation, any or all of the following would be considered in the Special Situations allocation:

- The utilization of Minority, Woman or Veteran Owned enterprises;
- Economically targeted or region specific investment strategies;
- Sustainable growth and environmentally friendly investments;
- Investments and proxy voting that support socially responsible and social justice issues;
- Unique or one-of-a-kind strategies that may or may not have any comparable or peer providers.

The Trustees’ duties as defined by the Trust document, Pennsylvania law, and the general Investment Policy Statement take precedence over any other considerations. Other considerations will be entertained only when not in conflict with any of these duties. It is recognized that investments made for the sole benefit of the Trust beneficiaries may also generate positive collateral benefits.

- 1) The Trustees shall consider investments which, when judged solely on the basis of economic value, would be financially comparable to alternatively available investments. Comparability will be judged on a risk-adjusted basis with the Trust being willing to accept no less in return and incur no additional risk or cost.
- 2) The collateral benefits shall not be considered part of the return to the Trust. The decision to invest may occur only after the investment is deemed acceptable to the Trustees exclusively on its economic merits.

- 3) Investment selection shall be consistent with the Trustees fiduciary obligations and approved investment policies and guidelines. Investments must conform at all times with applicable laws, requirements, policies and procedures governing the Trust. Special situations investments shall be allocated to and be part of the asset class that is the most similar in terms of asset type, portfolio classification and characteristics among the approved Asset Allocation categories as listed in Appendix A of this policy statement.
- 4) Investments shall receive a prudent level of due diligence. The due diligence shall be consistent with the investment asset type and portfolio classification and at a minimum shall address:
 - a. Legal sufficiency – Registration with appropriate regulatory bodies and the absence of material regulatory and compliance violations;
 - b. Identification of any potential conflicts of interest;
 - c. Investment sufficiency – The standard for investment sufficiency shall be consistent with those industry standards of due diligence normally applied to each specific asset type.
 - d. A Public Request for Proposal (RFP) process may not be practical or feasible in all situations, thus a public RFP requirement may be waived by the Trustees. A suitable and prudent alternative due diligence process shall be used in its place. Examples of such situations would include, but not be limited to, situations where there are no or few comparable products and candidates; or situations where comparable products and candidates do exist, but where a search of public or commercially available databases and websites would result in the identification of the vast majority of all eligible candidates (e.g., Lipper or Morningstar databases for mutual funds, The Pennsylvania Department of General Services database for Pennsylvania Certified M/W/VBEs).

Safekeeping

All securities, certificates, shares, or other indicia of ownership, shall be held by a Custodian appointed by the Trustees for safekeeping. The Custodian shall produce statements monthly listing the name and value of all assets held, and the dates and nature of all transactions. Assets of the Trust held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

Transactions

Investment Managers executing security transactions for the benefit of the Trust where brokerage commissions apply shall attempt to obtain the best execution for the security transaction. In executing the security transactions, the Investment Managers shall employ standard industry practices to ensure best execution of those transactions. Among the considerations that the Investment Manager must evaluate are brokerage cost, spreads, and quality. In addition to securing best execution, Investment Managers may be asked to participate in a commission recapture program in order to further improve the cost of security transactions to the Trust. The decision to utilize a commission recapture program through the custodian or a broker will be exclusively the decision of the Trustees of the Trust.

Review of this Investment Policy Statement

The Trustees shall review, at least annually, this Policy for its continued appropriateness in achieving the Trust's objectives. It is not expected that the Policy will change frequently. In particular, short term changes in the financial markets should not require an adjustment in the Policy.

Review of Investment Performance

The Investment Consultant shall provide written performance reports on the Investment Managers and the investment vehicles used by the Trust to the Trustees at least quarterly. In addition, the Investment Consultant is responsible for keeping the Trustees advised of any material changes regarding the Investment Managers, the investment vehicles used by the Trust, and other factors that may affect the performance of the Trust assets.

Voting of Proxies

Investment Managers of separate accounts are to vote all proxies with the interest of preserving or enhancing the Trust's value. Investment Managers of collective investment vehicles are expected to vote all proxies in accordance with their own proxy voting policy and to preserve or enhance the value of their investment holdings.

Adoption of Investment Policy Statement

Any changes or exceptions to this Policy will be made in writing and adopted by the Trustees. Once adopted, changes and exceptions will be delivered in writing to each Investment Manager, as appropriate, by the Investment Consultant.

Severability

If any provision or provisions of this Policy is held to be invalid, illegal, unenforceable or in conflict with the law of any jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired. Invalidity or unenforceability of one or more provisions of this Policy shall not affect any other provision of this Policy.

**Approved and Adopted by the Board of Trustees of the Pennsylvania Turnpike
Commission Retiree Medical Plan**

May 30, 2014

Date



Authorized Signatory



Authorized Signatory

Appendix A
OPEB Trust Asset Allocation and Ranges
 Adopted by the Trustees on May 30, 2014

Asset Class	Min	Target	Max
U.S. Equity	25%	29%	33%
Large Cap	15%	19%	23%
Small Cap	7%	10%	13%
Non-U.S. Equity	15%	15%	25%
Developed Markets	7%	10%	13%
Emerging Markets	3%	5%	8%
Fixed Income	14%	16%	18%
Cash Reserves	0%	1%	3%
Investment Grade	3%	5%	7%
Global Fixed Income	3%	5%	7%
High Yield	3%	5%	7%
Real Estate	12%	15%	18%
ODCE Funds	7%	10%	13%
ODCE Value-Added	3%	5%	7%
Commodities	3%	5%	7%
Global Tactical Asset Allocation (GTAA)	7%	10%	13%
Hedge Fund of Funds	7%	10%	13%
Core Diversified	5%	7%	10%
Special Situations / Credit	0%	3%	5%

Appendix B
OPEB Trust Manager/Strategy Benchmarks
 Adopted by the Trustees on May 30, 2014

Asset Class	Benchmark
U.S. Equity	Russell 3000 Index
Large Cap Core	Russell 1000 Index
S&P 500 Index	S&P 500 Index
Large Cap Value	Russell 1000 Value Index
Large Cap Growth	Russell 1000 Growth Index
Small Cap Core/Index	Russell 2000 Index
Small Cap Value	Russell 2000 or 2500 Value Index
Small Cap Growth	Russell 2000 or 2500 Growth Index
Non-U.S. Equity	
Developed Markets	MSCI EAFE (net) Index
Emerging Markets	MSCI Emerging Markets Index
Fixed Income	
Cash Reserves	Average 30 Day Treasury Bill Rate
Short Term Investment Grade	Barclays 1-5 Yr Gov/Credit
Global Bonds	Citigroup World Gov't Bond x U.S. Index
Short Duration High Yield	BofA ML US High Yield 1-3 Yr BB Index
Real Estate	
Core ODCE	NCREIF ODCE Equal Weight Index
Value-Added ODCE	NCREIF ODCE Equal Weight Index + 1%
Commodities	S&P GSCI Total Return Index or DJ-UBS Commodity Index
Hedge Fund of Funds	HFRI HFOF Composite Index
Core Diversified	HFRI HFOF Composite Index
Special Situations / Credit	HFRI Event Driven Index or IRR*

*Internal Rate of Return for vintage year funds and/or absolute return strategies.

Assets Advised Upon

	<u>6/30/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Total assets				
Total equity assets				
Total fixed income assets				
Total hedge fund assets				
Total real estate assets				
Total commodity assets				
Total equity assets in pension/OPEB funds				
Total fixed income assets in pension/OPEB funds				
Total hedge fund assets in pension/OPEB funds				
Total real estate assets in pension/OPEB funds				
Total commodity assets in pension/OPEB funds				
Number of pension/OPEB funds advised				